

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES



**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2016 TO 30 SEPTEMBER 2016
(UNAUDITED)**

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)**



For the period from 1 January 2016 to 30 September 2016

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BOUBYAN BANK K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Boubyan Bank K.S.C.P. (the “Bank”) and its subsidiaries (collectively “the Group”) as at 30 September 2016, and the related interim condensed consolidated statement of profit or loss and the interim condensed consolidated statement of other comprehensive income for the three and nine months periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine months then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

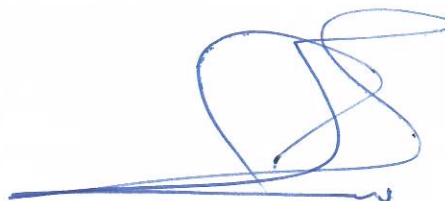
Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its executive regulations or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2016 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the nine months period ended 30 September 2016 that might have had a material effect on the business of the Bank or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS



BADER A. AL-WAZZAN
LICENCE NO. 62A
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BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF PROFIT OR LOSS (UNAUDITED)**


For the period from 1 January 2016 to 30 September 2016

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
		KD'000	KD'000	KD'000	KD'000
Income					
Murabaha and other Islamic financing income		31,548	26,169	89,949	74,082
Distribution to depositors and Murabaha costs		(9,092)	(5,268)	(24,526)	(16,153)
Net financing income		22,456	20,901	65,423	57,929
Net investment income/(loss)	3	1,141	(385)	2,845	1,207
Net fees and commission income		1,742	2,137	7,721	6,291
Share of results of associates		(856)	227	(1,418)	509
Net foreign exchange gain		703	410	1,731	1,169
Operating income		25,186	23,290	76,302	67,105
Operating expenses					
Staff costs		(6,187)	(6,082)	(19,049)	(17,481)
General and administrative expenses		(3,341)	(3,641)	(10,418)	(10,117)
Depreciation		(840)	(692)	(2,380)	(1,908)
Operating expenses		(10,368)	(10,415)	(31,847)	(29,506)
Operating profit before provision for impairment		14,818	12,875	44,455	37,599
Provision for impairment		(3,616)	(3,301)	(13,444)	(11,259)
Operating profit before deductions		11,202	9,574	31,011	26,340
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		(90)	(74)	(266)	(224)
National Labour Support Tax ("NLST")		(265)	(267)	(767)	(668)
Zakat		(106)	(99)	(307)	(266)
Net profit for the period		10,741	9,134	29,671	25,182
Attributable to:					
Equity holders of the Bank		10,720	9,122	29,627	25,158
Non-controlling interests		21	12	44	24
Net profit for the period		10,741	9,134	29,671	25,182
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	4	4.95	4.21	13.68	11.62

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the period from 1 January 2016 to 30 September 2016

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	KD'000	KD'000	KD'000	KD'000
Net profit for the period	10,741	9,134	29,671	25,182
Other comprehensive income				
Items that are or may be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:				
Change in fair value of available for sale investments	(316)	(647)	(623)	(718)
Foreign currency translation adjustments	700	(2,353)	747	(3,699)
Other comprehensive income /(loss) for the period	384	(3,000)	124	(4,417)
Total comprehensive income for the period	11,125	6,134	29,795	20,765
Attributable to:				
Equity holders of the Bank	11,104	6,122	29,751	20,741
Non-controlling interests	21	12	44	24
Total comprehensive income for the period	11,125	6,134	29,795	20,765

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

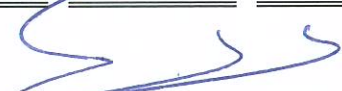
BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (UNAUDITED)**


As at 30 September 2016

		30 September 2016	(Audited) 31 December 2015	30 September 2015
	Notes	KD'000	KD'000	KD'000
Assets				
Cash and cash equivalents	5	283,878	465,259	289,921
Due from banks		442,333	218,076	300,155
Islamic financing to customers		2,443,476	2,171,794	2,107,536
Financial assets at fair value through profit or loss		19,336	15,388	15,263
Available for sale investments		148,418	126,307	129,534
Investments in associates		70,317	79,713	80,085
Investment properties		25,408	23,397	23,112
Other assets		13,721	14,169	15,127
Property and equipment		24,214	18,782	17,952
Total assets		3,471,101	3,132,885	2,978,685
Liabilities and equity				
Liabilities				
Due to banks		145,156	382,749	286,297
Depositors' accounts		2,871,365	2,398,935	2,349,903
Other liabilities		39,872	30,402	30,044
Total liabilities		3,056,393	2,812,086	2,666,244
Equity				
Share capital		216,641	206,325	206,325
Share premium		62,896	62,896	62,896
Proposed bonus shares	11	-	10,316	-
Treasury shares	7	(1,193)	(568)	(568)
Statutory reserve		9,998	9,998	6,283
Voluntary reserve		9,570	9,570	6,015
Share based payment reserve		1,483	1,171	1,086
Fair value reserve		3,536	4,159	4,364
Foreign currency translation reserve		(8,515)	(9,262)	(10,167)
Retained earnings		42,293	13,320	31,134
Proposed cash dividends	11	-	10,307	-
Equity attributable to equity holders of the Bank		336,709	318,232	307,368
Perpetual Tier 1 Sukuk	12	75,388	-	-
Non-controlling interests		2,611	2,567	5,073
Total equity		414,708	320,799	312,441
Total liabilities and equity		3,471,101	3,132,885	2,978,685



Mahmoud Yousef Al-Fulajj
Chairman



Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2016 to 30 September 2016

	Share capital	Share premium	Proposed bonus share	Treasury shares	Statutory reserve	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2016	206,325	62,896	10,316	(568)	9,998	9,570	1,171	4,159	(9,262)	13,320	10,307	318,232	-	2,567	320,799
Profit for the period	-	-	-	-	-	-	-	-	-	29,627	-	29,627	-	44	29,671
Other comprehensive (loss)/ income	-	-	-	-	-	-	-	(623)	747	-	-	124	-	-	124
Total comprehensive (loss)/ income for the period	-	-	-	-	-	-	-	(623)	747	29,627	-	29,751	-	44	29,795
Issue of Perpetual Tier 1 Sukuk (Note 12)	-	-	-	-	-	-	-	-	-	-	-	-	75,388	-	75,388
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	(650)	-	(650)	-	-	(650)
Share based payment	-	-	-	-	-	-	423	-	-	-	-	423	-	-	423
Dividends paid (note 11)	-	-	-	-	-	-	-	-	-	(4)	(10,307)	(10,311)	-	-	(10,311)
Issue of bonus shares (note 11)	10,316	-	(10,316)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	(787)	-	-	-	-	-	-	-	(787)	-	-	(787)
Sale of treasury shares	-	-	-	162	-	-	(111)	-	-	-	-	51	-	-	51
Balance at 30 September 2016	216,641	62,896	-	(1,193)	9,998	9,570	1,483	3,536	(8,515)	42,293	-	336,709	75,388	2,611	414,708

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2016 to 30 September 2016

	Share capital KD'00	Share premium KD'000	Proposed bonus share KD'000	Treasury shares KD'000	Statutory reserve KD'000	Voluntary reserve KD'000	Share based payment reserve KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Retained earnings KD'000	Proposed cash dividends KD'000	Equity attributable to equity holders of the Bank KD'000	Perpetual tier 1 Sukuk KD'000	Non-controlling interests KD'000	Total equity KD'000
Balance at 1 January 2015	196,500	62,896	9,825	(763)	6,283	6,015	864	5,082	(6,468)	5,978	9,815	296,027	-	5,075	301,102
Profit for the period	-	-	-	-	-	-	-	-	-	25,158	-	25,158	-	24	25,182
Other comprehensive loss	-	-	-	-	-	-	-	(718)	(3,699)	-	-	(4,417)	-	-	(4,417)
Total comprehensive (loss)/ income for the period	-	-	-	-	-	-	-	(718)	(3,699)	25,158	-	20,741	-	24	20,765
Share based payment	-	-	-	-	-	-	222	-	-	145	-	367	-	-	367
Dividends paid	-	-	-	-	-	-	-	-	-	(2)	(9,815)	(9,817)	-	-	(9,817)
Issue of bonus shares	9,825	-	(9,825)	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	195	-	-	-	-	-	(145)	-	50	-	-	50
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(26)	(26)
Balance at 30 September 2015	206,325	62,896	-	(568)	6,283	6,015	1,086	4,364	(10,167)	31,134	-	307,368	-	5,073	312,441

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (UNAUDITED)

For the period from 1 January 2016 to 30 September 2016

	Nine months ended 30 September	
	2016 KD'000	2015 KD'000
OPERATING ACTIVITIES		
Net profit for the period	29,671	25,181
Adjustments for:		
Provision for impairment	13,444	11,259
Depreciation	2,380	1,908
Foreign currency translation adjustments	5,908	(2,971)
Net gain from available for sale investments	(281)	(198)
Net gain from financial assets at fair value through profit or loss	(72)	(59)
Share of results of associates	1,418	(509)
Dividend income	(676)	(1,016)
Realized (gain)/loss from investment properties	(49)	222
Unrealized loss from investment properties	-	1,303
Share based payment reserve	423	417
Operating profit before changes in operating assets and liabilities	52,166	35,537
Changes in operating assets and liabilities:		
Due from banks	(224,257)	(36,562)
Islamic financing to customers	(281,599)	(312,138)
Other assets	448	(4,183)
Due to banks	(237,593)	59,558
Depositors' accounts	472,430	257,875
Other liabilities	9,390	1,981
Dividend income received	676	1,016
Net cash (used in)/ generated from operating activities	(208,339)	3,084
INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(5,000)	(2,890)
Proceeds from sale of financial assets at fair value through profit or loss	5,025	544
Purchase of available for sale investments	(37,286)	(20,787)
Proceeds from sale of available for sale investments	9,941	6,688
Proceeds from sale of investment properties	-	2,226
Purchase of investment properties	(1,997)	-
Purchase of property and equipment	(7,813)	(4,358)
Dividend received from associate	397	434
Net cash used in investing activities	(36,733)	(18,143)
FINANCING ACTIVITIES		
Net proceeds from issue of Perpetual Tier 1 Sukuk	75,388	-
Perpetual Tier 1 Sukuk Issuing cost	(650)	-
Cash dividends	(10,311)	(9,815)
Capital redemption of non-controlling interest	-	(26)
Purchase of treasury shares	(787)	-
Net of sale of treasury shares	51	-
Net cash generated from/ (used in) financing activities	63,691	(9,841)
Net decrease in cash and cash equivalents	(181,381)	(24,900)
Cash and cash equivalents at beginning of the period	465,259	314,821
Cash and cash equivalents at end of the period	283,878	289,921

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

For the period from 1 January 2016 to 30 September 2016

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P. (“the Bank”) is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait (“CBK”) (Law No. 30 of 2003).

The Bank’s shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia’a, as approved by the Bank’s Sharia’a Supervisory Board.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

On 31 July 2012; the Bank became a subsidiary of National Bank of Kuwait K.S.C.P. (“the Parent Company”).

This interim condensed consolidated financial information as at and for the nine months period ended 30 September 2016 incorporates the financial information of the Bank and its principal operating subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), (together referred to as “the Group”) and the Group’s interests in associates.

The address of the Bank’s registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

This interim condensed consolidated financial information was authorised for issue by the Board of Directors on 4 October 2016.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting, and the Kuwait Stock Exchange instruction No. 2 of 1998.

The annual consolidated financial statements for the year ended 31 December 2015 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39, ‘Financial Instruments: Recognition and Measurement’, requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2015.

The interim condensed consolidated financial information has been prepared using the same accounting policies and methods of computation with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2015, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2016 and which did not result in any material impact on the accounting policies, financial position or performance of the Group.

In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. The operating results for the nine months period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the year ending 31 December 2016.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)


For the period from 1 January 2016 to 30 September 2016

3. NET INVESTMENT INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	KD'000	KD'000	KD'000	KD'000
Sukuk coupon income	662	535	1,763	1,459
Dividend income	148	166	676	1,016
Net gain from financial assets at fair value through profit or loss	98	22	72	59
Net gain from available for sale investments	229	195	281	198
Net rental income from investment properties	4	-	4	-
Realized gain/(loss) from investment properties	-	-	49	(222)
Unrealized loss from investment properties	-	(1,303)	-	(1,303)
Net investment income	1,141	(385)	2,845	1,207

4. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change to the reported basic earnings per share.

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	Net profit for the period attributable to the equity holders of the Bank (KD'000)	10,720	9,122	29,627
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	2,164,849	2,164,624	2,164,961	2,164,725
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	4.95	4.21	13.68	11.62

Earnings per share for the three months and nine months prior period were 4.43 fils and 12.20 fils respectively, before retroactive adjustment to the number of shares following the bonus issue (note 11).

5. CASH AND CASH EQUIVALENTS

	(Audited)		
	30 September 2016	31 December 2015	30 September 2015
	KD'000	KD'000	KD'000
Cash on hand	25,011	25,598	21,434
Balances with banks – current accounts	9,828	9,411	5,437
Placements with banks maturing within seven days	249,039	430,250	263,050
	283,878	465,259	289,921

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the period from 1 January 2016 to 30 September 2016

6. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board member, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board members or executive officers				Number of related parties				(Audited)	
	30 September 2016		30 September 2015		30 September 2016		30 September 2015		KD'000	
	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	KD'000	KD'000
Islamic financing to customers	8	8	9	3	3	3	3	3,918	3,441	5,252
Depositors' accounts	17	16	16	8	8	8	8	53,059	22,768	44,413
Letters of guarantee and letters of credit Murabaha and other Islamic financing Income	1	1	1	1	-	1	-	43	25	40
Distribution to depositors and Murabaha costs								96	(446)	76
								(537)		(6)
Parent Company										
Due from banks								72,021	60,930	95,558
Due to banks								124,310	5,677	31,153
Murabaha and other Islamic financing income								234	349	181
Distribution to depositors and Murabaha costs								(246)	(197)	(115)

For the period from 1 January 2016 to 30 September 2016

6. RELATED PARTY TRANSACTIONS (CONTINUED)**Compensation of key management personnel**

Details of compensation to key management comprise the following:

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	KD'000	KD'000	KD'000	KD'000
Short-term benefits	436	464	1,348	1,395
Post-employment benefits	76	141	259	287
Share based compensation	117	100	354	301
	629	705	1,961	1,983

7. TREASURY SHARES

The Bank held the following treasury shares:

	30 September 2016	(Audited)	30 September 2015
		31 December 2015	
Number of treasury shares	3,374,947	1,790,413	1,790,41
Treasury shares as a percentage of total issued shares - %	0.1558	0.0868%	0.0868
Cost of treasury shares – KD thousand	1,193	568	568
Market value of treasury shares – KD thousand	1,325	790	725
Weighted average of market value per share – KD	0.396	0.427	0.427

8. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	30 September 2016	(Audited)	30 September 2015
		31 December 2015	
	KD'000	KD'000	KD'000
Guarantees	207,349	184,644	183,592
Acceptances and letters of credit	45,360	49,756	83,865
Other commitments	2,776	3,812	3,018
	255,485	238,212	270,475

9. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Nine months ended 30 September 2016						
Net financing income/(loss)	38,284	21,898	(1,502)	3,230	3,513	65,423
Operating income	41,096	28,050	553	4,959	1,644	76,302
Net profit/(loss) for the period	22,260	24,197	(5,817)	4,667	(15,636)	29,671
Total assets	1,121,347	1,565,748	147,514	641,411	(4,919)	3,471,101
Total liabilities	1,157,540	247,306	24,429	1,618,404	8,714	3,056,393
Nine months ended 30 September 2015						
Net financing income/(loss)	34,798	20,000	(989)	3,080	1,040	57,929
Operating income/(loss)	36,515	25,241	2,841	4,243	(1,735)	67,105
Net profit/(loss) for the period	20,635	18,949	(2,163)	3,950	(16,189)	25,182
Total assets	952,893	1,363,871	158,299	508,560	(4,938)	2,978,685
Total liabilities	970,349	218,118	20,285	1,455,429	2,063	2,666,244

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: input other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

10. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
30 September 2016				
Financial assets at fair value through profit or loss	-	16,776	2,560	19,336
Available for sale investments	118,628	20,096	9,694	148,418
	<u>118,628</u>	<u>36,872</u>	<u>12,254</u>	<u>167,754</u>
	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
31 December 2015 (Audited)				
Financial assets at fair value through profit or loss	-	12,828	2,560	15,388
Available for sale investments	98,139	18,015	10,153	126,307
	<u>98,139</u>	<u>30,843</u>	<u>12,713</u>	<u>141,695</u>
	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
30 September 2015				
Financial assets at fair value through profit or loss	-	12,268	2,995	15,263
Available for sale investments	100,129	19,115	10,290	129,534
	<u>100,129</u>	<u>31,383</u>	<u>13,285</u>	<u>144,797</u>

Fair values of all financial instruments are not materially different from their carrying values.

The movement in Level 3 of financial instrument during the period are as follows:

	At 1	Change in	Impairment	Additions/	Sale/	Exchange	At 30
	January	fair value		transfers	redemption	rate	September
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
30 September 2016:							
<i>Assets measured at fair value</i>							
Financial assets at fair value through profit or loss	2,560	-	-	-	-	-	2,560
Available for sale investments	10,153	-	-	-	(443)	(16)	9,694
	<u>12,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(443)</u>	<u>(16)</u>	<u>12,254</u>

	At 1	Change in	Impairment	Additions/	Sale/	Exchange	At 30
	January	fair value		transfers	redemption	rate	September
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
30 September 2015:							
<i>Assets measured at fair value</i>							
Financial assets at fair value through profit or loss	2,995	-	-	-	-	-	2,995
Available for sale investments	11,906	(176)	(341)	336	(1,526)	91	10,290
	<u>14,901</u>	<u>(176)</u>	<u>(341)</u>	<u>336</u>	<u>(1,526)</u>	<u>91</u>	<u>13,285</u>

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statements of profit and loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the securities classified under level 2 and level 3 were altered by 5 percent.

For the period from 1 January 2016 to 30 September 2016

11. ANNUAL GENERAL ASSEMBLY MEETING

The shareholders' annual general assembly held on 21 March 2016 approved the audited consolidated financial statements of the Bank for the year ended 31 December 2015 and the distribution of a cash dividends of **5 fils** per share payable to the shareholders registered in Bank's records as of the date of Annual General Assembly Meeting and **5%** bonus shares to the shareholders on record at the date of regulatory approval for distribution of bonus shares.

12. PERPETUAL TIER 1 SUKUK

In May 2016, the Bank through a Sharia's compliant Sukuk arrangement issued Tier 1 Sukuk amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588 % per annum.

At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.